

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SAB-01 AGR-05 EB-07 AID-05 CIAE-00

DODE-00 PM-03 H-01 INR-05 L-02 NSAE-00 NSC-05 PA-01

RSC-01 PRS-01 SP-02 SS-15 USIA-06 CIEP-01 TRSE-00

STR-01 OMB-01 CEA-01 COME-00 FEA-01 OES-03 SWF-01

IGA-01 INT-05 /086 W

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P R 112121Z DEC 74

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC PRIORITY 7009

INFO AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

AMEMBASSY PANAMA

AMEMBASSY MEXICO CITY

C O N F I D E N T I A L SAN SALVADOR 4874

E.O. 11652 - GDS

TAGS: PFOR, OCON, EFIN, ENRG, ES, VE

SUBJ: VENEZUELAN OFFERS AND SALVADORAN EXPECTATIONS FROM
MEETING AT CARACAS OF PRESIDENTS OF CA AND PANAMA

REF: A) SAN SALVADOR 4772; B) CARACAS 12026

GUATEMALA ALSO FOR ROCAP

1. THE SALVADORAN PRESS HAS REPORTED THE ALLEGED PROPOSALS
OF THE GOV TO ASSIST CA AND PANAMA, USING AS SOURCES OTHER CENTRAL
AMERICAN PRESS ARTICLES AND, ON DEC 11, AN AIRPORTDEPARTURE
STATEMENT BY ECONOMY MINISTER HIDALGO QUEHL. ALL THESE
REPORTS HAVE SAID OR IMPLIED THAT THE GOV PETROLEUM FUND WOULD
CONSIST OF THE DIFFERENCE BETWEEN THE 1972 VENEZUELAN PRICE AND
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THE CURRENT PRICE AND WOULD BE A DONATION, REPEAT DONATION, FOR

USE AS COUNTERPART TO IFI AND BILATERAL FOREIGN ASSISTANCE LOANS OR FOR GOV APPROVED PROJECT FINANCING. THE GOES DELEGATION ATTENDING THE PREPARATORY SESSIONS IN VENEZUELA HAD AT MOST TWO DAYS IN SAN SALVADOR BEFORE RETURNING TO CARACAS DEC 10 (FOREIGN MINISTER BORGONOVO, CONTRARY TO OUR EARLIER REPORT, WENT TO CARACAS, FROM CARACAS TO LIMA, RETURNED TO SAN SALVADOR THE NIGHT OF DEC 8, AND RETURNED TO CARACAS THE FOLLOWING MORNING, AFTER SEEING THE PRESIDENT. THE FOLLOWING, BASED ON A CONFIDENTIAL CONVERSATION BETWEEN ECONOFF AND ACTING ECONOMY MINISTER MANUEL ROBLES, DIFFERS SOMEWHAT WITH OTHER REPORTS AND REFLECTS GOES ASPIRATIONS FROM THE MEETING OF PRESIDENTS DECEMBER 13 AND 14.

2. ATHE AGENDA, REPORTED IN REFTELS, REPORTEDLY WILL INCLUDE ONE MORE ITEM, "POLITICAL CONSIDERATIONS." CONCERNING THE OTHER FIVE:

(A) IN THE COFFEE RETENTION FINANCIAL PROPOSAL THE GOV OFFERED TO FINANCE 50 PERCENT OF THE RETENTION USING A SUPPORT PRICE OF \$50 PER CWT, IE THE FIRST \$25 PER CWT. ROBLES USED A SALVADORAN RETENTION FIGURE OF 180,000 BAGS (60 KILOS), WHICH OBVIOUSLY IS NOT 20 PERCENT OF THE UNEXPECTED PRODUCTION OF AROUND 2.2 MILLION BAGS, IMPLYING PERHAPS SOME RELIEF TO EL SALVADOR FOR ITS "OVER ADHERENCE" TO PRODUCER PRICE SUPPORT DURING THE LAST COFFEE YEAR. IN ANY EVENT, HE SAID THE FINANCING TO EL SALVADOR WOULD BE AROUND \$5 MILLION. REPAYMENT WOULD BE REQUIRED SHOULD THE PRICE REACH \$71 CWT, BUT ROBLES SAID THE DETAILS OF PRICE BASE, REPAYMENT METHOD, ETC REMAIN TO BE DEVELOPED. THE RATE OF INTEREST WOULD BE AROUND 5 PERCENT. COMMENT: FINANCING AT THIS LEVEL WOULD COST THE GOV PERHAPS LESS THAN HALF THE \$80 MILLION QUOTED BY MANY SOURCES AND LEAVES HALF THE BURDEN WITH THE PRODUCING COUNTRY.

(B) ROBLES SAID THE AGENDA ITEM ON COORDINATION OF RELIEF TO HONDURAS INVOLVES ONLY AGREEMENT BY THE OTHER CA'S THAT THE GOV SHOULD DO ALL POSSIBLE TO ALLEVIATE THE HONDURAN ECONOMIC PROBLEM; A CA CONSENSUS FAVORING THIS WAS EASILY OBTAINED.

(C) PETROLEUM FINANCING. THE GOV REPORTEDLY OFFERED TO REBATE, BEGINNING IN 1975, TO A FUND CONTROLLED BY IT AND THE RECIPIENT COUNTRY, IN THE RESPECTIVE CENTRAL BANK, THE DIFFERENCE BETWEEN \$6.00 A BARREL AND THE CURRENT PRICE. THE FUND
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WOULD LAST THE DURATION OF THE PRESENT GOV ADMINISTRATION. (WHETHER THERE WOULD BE SOME RETROACTIVE REBATE WAS NOT CLEAR.) IT WOULD BE REPAYABLE, AFTER A GRACE PERIOD, IN BOLIVARS AND AT THE RATE OF INTEREST APPLIED BY IDB'S ORDINARY FUND. THE TERM WOULD BE 25 YEARS. THE GOES WILL COUNTERPROPOSE THAT THE INTEREST RATE BE AT THE LOWEST IDB RATE (E.G. 2 PERCENT DURING GRACE PERIOD AND 3 PERCENT THEREAFTER) AND REPAYMENT BE MADE IN DOLLARS; FAILING THE LATTER, THAT IT BE AT THE DOLLAR/BOLIVAR

EXCHANGE RATE PREVAILING AT THE TIME OF THE CONTRIBUTION TO THE FUND. (THE OBVIOUS FEAR IS THE REVALUATION OF THE BOLIVAR). THE FUND WOULD BE USED FOR LOCAL COST COUNTERPART TO IFI AND BILATERAL LENDING (INCLUDING AID), FOR GOV INVESTMENTS, AND FOR LENDING TO THE CA GOVERNMENTS FOR PROJECTS. AT THE CURRENT RATE OF CRUDE IMPORTS A FUND FED BY THE DIFFERENCE OVER \$6.00 PER BARREL WOULD PROVIDE \$27-30 MILLION A YEAR TO EL SALVADOR. THE REBATE PRESUMABLY WOULD SATISFY GOV OBLIGATIONS TO OPEC AND AVOID CONFUSION IN ACCOUNTS OF THE OIL COMPANIES INVOLVED.

(D) BILATERAL PROJECTS. EACH COUNTRY WILL TAKE TO THE MEETING ITS "SANTA CLAUS" LIST OF PROJECTS. THE SALVADORAN ONE INCLUDES SOME 25 PROJECTS, THE PRIORITY ONES BEING THE "LA IMPTADA" HYDROELECTRIC DAM PLANNED ON THE RIO LEMPA, ELECTRIFICATION OF RAILROAD AND PERHAPS MUNICIPAL TRANSPORT, AND A FERTILIZER PLANT. THE IDEA HERE IS THAT THE FINANCING GO TO THE GOES FOR ITS INVESTMENT AND NOT HTAT THE GOV HAVE AN EQUITY POSITION IN THE PROJECT. BUT THIS IS NOT TO EXCLUDE THE IDEA OF POSSIBLE GOV DIRECT INVESTMENTS. ROBLES AID THE HIGHEST LEVEL OF GOV PROJECT ACTIVITY WOULD MOST ASSUREDLY BE IN HONDURAS (RELATED TO THE OBJECTIVE OF SPECIAL ASSISTANCE TO HONDURAS) AND WOULD PROBABLY INCLUDE THE PULP AND PAPER MILL AND A STEEL MILL. HE WAS UNCLEAR CONCERNING THE INTENDED MARKET FOR THE POSSIBLE GOV FINANCED REFINERY IN COSTA RICA.

(E) ASSISTANCE TO REGIONAL INSTITUTIONS (CABEI). ROBLES SAID CABEI PRESIDENT ORTEZ COLINDRES IS SEEKING A TRANSFER FROM THE IDB OF \$100 MILLION OF THE \$500 MILLION PROVIDED IT BY VENEZUELA, ARGUING THAT SINCE THE IDB FUND IS AVAILABLE TO ALL LATIN COUNTRIES, INCLUDING THE RELATIVELY WELL OFF, AT LEAST \$100 MILLION SHOULD BE RESERVED FOR CA BY THIS TRANSFER. HE IS ALSO CONTINUING TO SEEK A GOV COMMITMENT TO PURCHASE \$40 MILLION OF CABEI BONDS. CAMPBELL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETING AGENDA, COFFEE, PETROLEUM, CHIEFS OF STATE MEETINGS, TRADE CONTROLS, LOANS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 11 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974SANS04874
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740360-0226
From: SAN SALVADOR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741243/aaaabkwf.tel
Line Count: 145
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 74 SAN SALVADOR 4772, 74 CARACAS 12026
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 10 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 SEP 2002 by elyme>; APPROVED <18 MAR 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: VENEZUELAN OFFERS AND SALVADORAN EXPECTATIONS FROM MEETING AT CARACAS OF PRESIDENTS OF CA AND PANAMA
TAGS: PFOR, OCON, EFIN, ENRG, ES, VE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005